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MULTINATIONAL BANKING

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MULTINATIONAL BANKING

Introduction

Multinational banking has grown in a single decade from a fringe activity for the U.S. banking system to its centerpiece. The dramatic growth of multinational banking has opened new avenues of expansion and profit for U.S. banks abroad and for foreign banks in the United States. Banks have responded to this opportunity by inventing new forms of financial institutions and services and by developing new markets. The dynamic, innovative character of multinational banking activity poses a major competitive challenge for banks in almost all countries and also presents a formidable challenge to the traditional concepts and current practices of bank regulation.

Bank regulatory systems in most countries, including the United States, have evolved primarily in response to domestic banking development and are oriented largely to the regulation of the domestic activity of domestic banks. The response by bank regulators to the rapid emergence of multinational banking activity has been hesitant, sporadic, and almost exclusively national. That is not to suggest that bank regulation has been either too lax or too restrictive, but simply to observe that the goals and means of bank regulation in this country and other countries have not been designed with multinational banking in mind. In such circumstances there are the twin dangers—to borrow from cybernetics—of "oversteering" and "understeering". In the haste to cope with problems which seem to suddenly loom up, but are only dimly perceived, remedies may be adopted which are far too drastic. On the other hand, developments may outpace comprehension, leading to a failure to solve problems which have arisen, or anticipate difficulties and opportunities on the horizon.

In order to aid public understanding, and in order to assist the committee in determining the need for legislative or regulatory action, the committee staff has begun a comprehensive study of multinational banking. The study is not intended to prejudge any of the issues, nor is it intended to serve as a reason for postponing such legislation as the committee may deem appropriate in this area prior to completion of the study. Any opinions expressed in the study will be those of the staff and will not necessarily reflect the views of any member of the committee.

The first chapter of the study will describe the growth of multinational banking. The next three chapters will focus on some of the key regulatory issues arising out of that growth. The last four chapters will assess the economic impact of multinational banking. The study may obtain information through surveys, questionnaires, and interviews with regulatory and financial officials and experts on multinational banking. Comments and suggestions from interested members of the public are welcome and may be addressed to the person having primary responsibility for particular subjects as follows:

1. The growth of multinational banking	John Henderson.
2. Political and economic risks in multinational banking	Stanley J. Marcuss, Robert W. Russell.
3. Structure for regulating U.S. banking abroad	Charles L. Marinaccio.
4. Regulation of foreign banking in the United States	William R. Weber.
5. Lender of last resort responsibility in multinational banking	Robert W. Russell.
6. The impact of multinational banking on the structure of U.S. banking	Stanley J. Marcuss.
7. The impact of multinational banking on the performance of U.S. banking	William R. Weber.
8. The impact of multinational banking on monetary policy	John Henderson.

1. The Growth of Multinational Banking

The expansion of international activities of U.S. banks in the post World War II period began as a natural accompaniment to the growth of world trade and of direct U.S. investment abroad. Until the mid-1960's, however, comparatively few banks had an extensive system of foreign branches.

The banks' use of domestic funds for foreign loans contributed to the increasing deficits in the U.S. balance of payments during the 1960's. The voluntary foreign credit restraint guidelines, first imposed on U.S. banks in 1965, provided a strong incentive to the banks to seek funds overseas for lending to foreign customers. These controls also boosted offshore trading in dollars in the Eurocurrency market which is substantially unregulated. The Federal Reserve acceded to the progressive internationalization of the banking and credit systems of different countries by allowing U.S. banks to open shell branches in the Bahamas, dealing in foreign liabilities and making foreign loans, mostly in the Eurocurrency markets.

The consequences were a rapid increase in the number of U.S. banks with overseas branches, and in the number and asset size of those branches. Whereas only 15 U.S. banks had 295 overseas branches at the end of 1967, 53 banks had 459 branches by the end of 1969 and the assets of these overseas branches had more than doubled to over $40 billion. Assets doubled again in the next 3 years to $80 billion held by 108 U.S. banks with 627 overseas branches.

Accompanying this growth was a great increase in the inflow and outflow of banking funds. For example, the home offices of U.S. banks with London or other foreign branches borrowed as much as one-quarter of their branches' total resources in 1969, in order to evade the restrictive monetary policy of the Federal Reserve. The decline in demand for loans in the recession of 1970 permitted repayment of most of the U.S. parent banks' borrowing, but this contributed to our balance of payments deficit and may have influenced speculation in foreign exchange markets which preceded the devaluation of the dollar in August 1971.

After the second devaluation of the dollar in early 1973 and the adoption of floating exchange rates, there was another surge in the growth of U.S. banks' activities abroad, total branch assets growing in that year by over 50 percent to $118 billion. When oil prices quadrupled in late 1973 there was a crisis of confidence, due to the fear that the private international banking system would be unable to

recycle the prodigious surpluses projected for the oil-producing countries and due to the deteriorating credit ratings of some borrowers. These fears were heightened by a few spectacular bank failures.

Nevertheless the situation had stabilized by the end of 1974, after an agreement by the central bank governors of the group of ten to engage in cooperative support arrangements. After a pause in the growth of U.S. banks' offshore activities, there was a resurgence before the yearend, as U.S. domestic output declined and U.S. interest rates fell even more sharply than foreign rates. Consequently in 1975 the United States shifted from being a net user of branch bank funds to being a net supplier, with a net outflow of some $10 billion of bank funds. At the end of 1975, foreign branch assets had grown to over $177 billion in the aggregate, representing over 15 percent of the combined assets of U.S. banks' domestic offices and foreign branches.

There have been substantial shifts in recent years in the location and structure of U.S. banks overseas activities. Since 1973, when continental European countries imposed exchange controls on fund movements and reserve requirements on external liabilities of banks in their countries, the major growth of U.S. branches has been outside Europe. U.S. banks' activities have also become increasingly diverse and complex. Especially in the case of the large banks, more business is being done in terms of other currencies than the dollar, more deposits are foreign-source and a growing portion of international business is being done through finance company subsidiaries and Edge Act and Agreement corporations. Moreover, more bank holding companies, under the authority granted in the 1970 amendments to the Bank Holding Company Act, have made equity investments in nonbanking enterprises abroad.

This chapter will seek to describe in greater detail those trends in multinational banking and to provide some quantitative estimates of the size and scope of multinational banking.

2. Political and Economic Risks in Multinational Banking

Multinational banking activity opens U.S. banks to potential losses (and gains) through actions taken by sovereign foreign governments for a variety of political and economic purposes. There are also unique economic and financial risks involved in multinational banking. These special risks are qualitatively, and perhaps quantitatively, different from the risks presented by domestic banking activity. The issue is whether U.S. bank regulation is properly attuned to these unique risk factors.

Political and economic risks arise in three basic forms: Foreign exchange exposure, country loan concentration, and foreign deposit concentration. Each involves distinct, usually separate, aspects of bank operations and pose different questions for U.S. bank regulatory agencies.

Foreign exchange trading involves the downside risk that a bank will be left holding too much of a foreign country's currency when that currency's value is suddenly changed or the use of the currency is restricted through Government action. Banks ordinarily set prudent limits on position taking by their trading departments in each foreign currency. Problems have arisen when banks failed to set prudent limits or when foreign exchange traders violated the limits.

Opportunities for fraud in foreign exchange operations arise from the complex, specialized nature of foreign exchange trading and the reliance by traders upon personal trust and verbal commitments by telephone. Instances of massive abuse were uncovered in the cases of the Lugano branch of Lloyds Bank International, Union Bank of Switzerland, Franklin National Bank, and Banque de Bruxelles. In each of these cases, senior officials of the banks were unaware of the size of forward commitments being undertaken by their foreign exchange traders. Furthermore, in some cases, traders have traded forward currency for their personal accounts while using the bank's name.

Internal bank controls over foreign exchange trading operations have been improved in response to the heavy foreign exchange losses suffered by some banks in 1973 and 1974. Reporting requirements have been placed on banks in order to enable the Federal regulatory agencies to monitor foreign exchange exposure. Questions persist about the completeness of the information obtained by the Federal agencies and about the effectiveness of regulatory action to compel banks to set and maintain limits on foreign exchange position taking. Central banks in other countries have used different measures to manage foreign exchange risk in their banking systems. A comparative analysis is required.

The risk that a country will freeze or expropriate foreign assets or default on its international financial obligations has led to concern over the degree of exposure of U.S. banks in certain foreign countries. Also, a severe economic recession in a country could jeopardize loans to business firms in that country. Data collected by the Federal Reserve Board on the foreign assets of a sample of 21 large U.S. banks suggest that individual banks have sizable loan exposure in a few countries. Experience to date with international lending shows that loan losses have been less than in domestic lending, but it is questionable whether in this instance the past is a good guide to the future, given the balance of payments and debt service problems faced by many countries and the widespread discussion of possible defaults and moratoria on loan repayments. In the circumstances, it is discomforting that the Federal bank agencies disagree on the very concept of country risk.

The Comptroller of the Currency, James Smith, testified before the Senate Banking Committee on March 1, 1976, that his Office:

> has undertaken in the examination of international banking activities to classify and comment on international lending activity on the basis of sovereign or country risk, * * * and we are the only examining agency that so comments on international lending.

Governor Holland of the Federal Reserve Board testified before the Committee on February 5th, that:

> country risk exposure is too sweeping a label for a useful analysis of risk in international operations * * * the idea of a country risk concept, I believe frankly, is obsolescent if not obsolete.

Overseas loans by national banks are apparently examined by the Comptroller in part on the basis of a country risk concept which is rejected by the Federal Reserve, the agency which examines overseas loans by state member banks. The controversy over the country risk concept must be resolved so that overseas loans by both state-chartered

and national banks receive consistent treatment from bank supervisory agencies.

The large placements of surplus funds in the Eurodollar market in the past 3 years by a few oil producing countries have generated concern that some U.S. banks may become too reliant on short-term deposits placed with them by particular foreign countries. The Federal Reserve Board's data reveal that the largest U.S. banks obtain an average of 5 percent of their total deposits from Middle East and north African oil producing countries. If those countries, for whatever reason, should decide to suddenly shift their funds to other banks, particular banks could suffer temporary liquidity shortages. The funds could probably be replaced through the interbank market, but at a cost to the bank in question. The probability of substantial deposit withdrawals and the potential impact on individual banks and the banking system as a whole needs to be more adequately assessed.

The competition for sources of funds may have tempted certain U.S. banks to develop very special relationships with certain foreign countries. If so, the issue is whether such special relationships constitute sound practice for the banks and a sufficient regard for the U.S. national interest. The Federal bank regulatory agencies have shown little eagerness to study and debate this issue, perhaps for fear that rigid restrictions on deposit concentration would be forced upon the banks by Congress. But the real risk is that existing laws and regulations will not be reexamined and that the problem of deposit concentration in multinational banking will be left to fester unattended.

3. Structure for Regulating U.S. Banking Abroad

The diffusion of supervisory responsibility for the international activities of U.S. banks among three Federal agencies—the Federal Reserve Board, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation—raises obvious questions about duplication of effort, consistency of supervisory standards, and possible gaps in the coverage of multinational banking activities. At present, the Fed is responsible for supervising and regulating State member banks, Edge Act corporations and bank holding companies; the Comptroller examines and regulates national banks; and the FDIC examines and regulates insured State banks which do not belong to the Federal Reserve System. The issue of supervisory adequacy is particularly evident in the case of national banks.

Most of the multinational banking activity of U.S. banks is conducted through national banks, and nearly all of the 99 national banks with foreign branches or foreign banking subsidiaries are part of a bank holding company. Therefore, most multinational banking activity is subject to the supervisory jurisdiction of both the Fed and the Comptroller. The formation of foreign branches by national banks is authorized by the Fed, but examination of those branches is the responsibility of the Comptroller's Office. The parent bank holding companies are regulated by the Fed, which rules on their formation, their acquisitions and the types of activities in which they may engage overseas. The question is whether this bifurcated arrangement provides appropriate, coordinated supervisory treatment of the multinational banking operations of the national bank and its bank holding company.

The question of consistent treatment is illustrated by the supervisory handling of bank capital positions. Capital adequacy is a key element in the determination of a bank's soundness and has been much discussed among bankers and bank regulators. The issue of capital adequacy is particularly relevant for those banks which carry on the bulk of multinational banking activity. There is a historical decline in the capital ratios calculated by Federal agencies, and the ratios are lowest for the largest U.S. banks—those banks which carry on the bulk of U.S. international banking activity and for whom international activity yields one-third to one-half of total earnings.

It has been argued that large banks do not need capital ratios as high as those needed by small banks, and that diversified banking activity does not require as much capital as concentrated activity—whether the diversification is geographic or by type of activity. Many students of bank regulation have also argued that certain kinds of financial activity not within the domestic definition of banking, but permitted to foreign branches, subsidiaries, and affiliates of U.S. banks, require more capital than is required for ordinary commercial banking.

Through their foreign branches and subsidiaries, Edge Act Corporations and bank holding companies, U.S. banks are permitted to hold stock in foreign companies, as well as foreign banks, to engage in investment banking abroad, and such other financial operations as management consulting, management of foreign mutual funds, travel agency and warehousing services. In short, a significant range of activities is open to U.S. banks overseas which is not open to them at home, and many of those activities require substantial capital backing.

Capital adequacy for national banks is considered by the Comptroller's office in the bank examination process, but the overseas activities of those banks are subject to approval and regulation by the Federal Reserve Board.

It is no secret that the Comptroller and the Board have different standards of bank capital adequacy. Situations can arise—and preliminary investigation suggests they have arisen frequently—in which the Comptroller is satisfied with the capital position of a national bank but the Federal Reserve Board denies that bank's applications to expand overseas activities on the grounds that the one bank holding company in which the national bank is located has insufficient capital to support expansion.

The Board faces a dilemma in ruling on the overseas activities of U.S. bank holding companies, and Edge Act corporations because both State and national banks are active overseas. Unless the Board and the Comptroller are in full agreement on capital adequacy standards, which has clearly not been the case in the past, the Board has to choose between accepting the Comptroller's judgment with respect to national banks—thereby ratifying for the multinational banking activities of national banks capital standards which are different from the standards it applies to similar activities by State banks—or insisting on equal treatment of the multinational banking activities of all U.S. banks, whether those banks are Federal or State chartered.

The treatment of bank capital is by no means the sole basis for concern about the adequacy of the present bank supervisory structure

for dealing with multinational banking, nor are the Comptroller and Fed the only agencies involved. The FDIC does not have authority at present to regulate the establishment of foreign branches or subsidiaries by the U.S. banks under its jurisdiction (State nonmember banks). At least 13 banks under FDIC jurisdiction maintained foreign branches as of March 1975; all but one of these branches were located in the Caribbean. Six of the insured State-chartered nonmember banks with foreign branches are subsidiaries of large foreign banks, including such behemoths as Lloyds, Barclays, and the Bank of Tokyo. Legislation has been proposed which would give the FDIC regulatory authority over foreign branching by insured nonmember banks. But is the FDIC the proper agency to regulate and supervise these fragments of giant multinational banking entities? Under legislation proposed by the Federal Reserve Board, the Board would obtain supervisory authority over most foreign bank activity in the United States, including the U.S. branches of such banks as Lloyds, Barclays, and the Bank of Tokyo, but not over State-chartered subsidiaries of those same foreign banks. How many different Federal and State bank agencies should be given authority to deal with multinational banking?

Both the Federal Reserve Board and the Comptroller's Office have testified that supervision of large banks with extensive multinational operations is a difficult challenge, and that multinational banking operations require analysis by specialists. The extent and complexity of multinational banking activity suggest that adaptations in the present supervisory structure may be needed to assure more uniform and equitable supervision.

Another issue that will be explored is whether the regulatory agencies are adequately examining loans to foreign companies by U.S. banks. Unlike domestic corporations, foreign corporations often reveal less information about their internal financial condition. As a result, U.S. bank examiners may find it difficult to evaluate the creditworthiness of the foreign loans in a bank's portfolio.

4. Regulation of Foreign Banking in the United States

Legislation is pending in Congress to revise the present framework for regulating foreign banking in the United States.

This legislation highlights not only the uniqueness of the dual system of chartering and regulating banks in the United States but also the manner by which permissible banking activity may vary under the laws of different countries.

At issue are the competitive advantages allegedly enjoyed by foreign banks doing business in the United States, particularly with regard to multi-State banking operations and the maintenance of securities affiliates. Also at issue is the manner to which foreign banks should be subject to Federal Reserve Board regulations, including reserve requirements, and be required to carry FDIC insurance.

Congress is attempting to assess the appropriate interest of the Federal Government in monitoring or regulating the business activities in the United States of the world's largest banking concerns. Such an assessment will require continuing analysis beyond the scope of legislation currently pending, and will be addressed in this chapter.

5. Lender of Last Resort Responsibility in Multinational Banking

The Federal Reserve System acts as a lender of last resort to U.S. member banks which are basically solvent, but facing a temporary liquidity problem. The purpose of a lender of last resort facility is to increase the banking system's resistance to contagious loss of confidence. While the lender of last resort responsibility is clear with respect to domestic banking, the lines of responsibility are not as clear as they might be in multinational banking. The issue is whether the multinational banking system has or should have a lender of last resort arrangement corresponding to that for the U.S. domestic banking system.

Foreign branches are part of the parent U.S. bank, and rely upon it for support. If a U.S. bank has to assist an overseas branch that is in difficulty, and if the result is a liquidity strain on the U.S. bank, it can look to the Federal Reserve as lender of last resort. But branches are not the sole institutional form that multinational banking takes; subsidiaries, joint ventures and affiliates are a significant and growing portion of the international operations of U.S. banks.

Foreign subsidiaries, joint ventures and affiliates of U.S. banks are separately incorporated in the host foreign country and have capital resources of their own. However, there are a number of instances in recent years in which such entities have had to fall back on the resources of the stockholder banks.

Any bank with a global reputation to preserve will feel a business responsibility to extend financial assistance to an ailing subsidiary or joint venture, even where legal responsibility is absent or limited. The United California Bank went far beyond its legal obligation to its Basle subsidiary when that entity failed in 1973; most multinational banks assert that they would do the same for their own foreign ventures. The probability that U.S. banks will come to the assistance of their overseas entities in London in particular has apparently been increased by recent actions. The Bank of England in the fall of 1974 requested all U.S. banks with operations in London to indicate formally their willingness to back up all their subsidiaries and affiliates located in Britain. The banks are reported to have complied with this request.[1]

If U.S. banks do come to the rescue of their foreign joint ventures, will the Federal Reserve be prepared to assist the U.S. banks if liquidity problems result? The answer is unclear. The Fed has recently announced that it will treat all applications to form joint ventures as if the U.S. bank were fully liable for all operations of such joint ventures, unless the U.S. bank can prove otherwise. But the Fed has not said what support it feels responsible for providing to U.S. banks which provide full support to a joint venture.

The issue is complicated by the question of the responsibility of the foreign central bank to assist a U.S. owned subsidiary firm incorporated in the foreign country, and the corresponding responsibility of the Federal Reserve Board to assist foreign owned banking subsidiaries in this country which are members of the Federal Reserve System. Review and clarification of the lender of last resort responsi-

[1] See remarks by George Blunden, delivered on Mar. 17, 1975, reprinted in the Bank of England Quarterly Bulletin, Volume 15, No. 2 (June 1975), pp. 188–194.

bility is needed so that all parties—multinational banks, their customers, foreign central banks, the Fed, Congress and the public—will know what assistance is available to U.S. banks which go to the aid of their foreign subsidiaries and affiliates. Central bankers meeting at the Bank for International Settlements in Basel, Switzerland, have discussed the problem and reported agreement in principle on support for multinational banks which have liquidity crises. The nature of that agreement is not clear, and it would appear that further effort to define the lender of last resort responsibilities of central banks is required.

An added consideration about which the Fed has been consistently mute, is the accumulation of foreign assets by the Fed when it performs the lender of last resort function for a bank whose portfolio contains a large proportion of assets payable abroad or in foreign currencies. The collateral obtained in such cases can only be collected if foreign governments and central banks are sympathetic to the collection effort. Fortunately there have been no problems of this nature to date, but as multinational banking grows and the responsibility of the Fed expands, the practice of discounting foreign assets should be reconsidered.

6. The Impact of Multinational Banking on the Structure of U.S. Banking

The expansion by U.S. banks into nonbanking activity overseas, and the competition among U.S. banks for multinational banking business have raised questions about the degree of concentration of economic power and the fairness of competition fostered by multinational banking. The large multinational banks have been particularly eager to develop close linkages with large multinational corporations by moving into financial transactions other than commercial banking.

The Federal Reserve Board in ruling in 1974 against attempts by America's two largest banks to acquire sizable equity interests in insurance underwriting firms incorporated overseas, stated that:

> Close working relationships abroad between large U.S. banking organizations and large U.S. insurance companies could in time weave a matrix of relationships between the joint venturers in the U.S. and abroad that could lead to an undue concentration of economic resources in the domestic and foreign commerce of the United States.

The Board's decisions are reassuring with respect to insurance underwriting, but U.S. banks are already involved in a host of other nonbanking activities overseas, including securities underwriting. Some of these activities could lead to precisely the kind of web of economic concentration which the Board warned against. A study of these activities can help determine whether continued growth should be encouraged or discouraged.

The net effect of multinational banking activity on competition among U.S. banks may be to heighten banking concentration in this country. There is an obvious question of whether smaller banks lose their corporate customers if they cannot afford to follow the corporations overseas and open banking branches, subsidiaries and joint ventures abroad. But there is also a question about the competitive relationship among the banks which do succeed in developing multinational banking activities. Loan syndication patterns appear to

follow the linkages established through correspondent banking relationships and consortium banking ventures. The larger Eurodollar loans are arranged by the larger multinational banks, which receive the special fees and choose the participants. Other banks may have significant international operations, but be squeezed out of the most profitable aspects of multinational banking. There is insufficient evidence presently available to determine the impact of multinational banking on bank competition and concentration; the staff study is intended to probe this issue.

7. The Impact of Multinational Banking on U.S. Bank Performance

The foreign operations of U.S. banks are becoming increasingly significant in terms of their impact on domestic bank performance. Foreign operations already account for a substantial percentage of total income of large U.S. multinational banks.

The growth of multinational banking calls into question the relative profitability of foreign and domestic banking operations. This, in turn, will likely affect the manner in which U.S. multinational banks structure their domestic banking operations to serve the public, both in terms of availability and costs of financial services.

The continuing quest for foreign source income needs to be examined in terms of both the regulatory environment in which multinational banking operations are presently conducted and the overall safety, soundness, and stability of U.S. multinational banks.

These considerations will be explored in this chapter.

8. The Impact of Multinational Banking on Monetary Policy

The growth of multinational banking has brought about a greater degree of internationalization of money markets and has thus magnified the impact on U.S. monetary policy of international flows of funds. Congressional oversight of monetary policy would be assisted by a better understanding of how institutional change may have altered the efficacy of Federal Reserve methods of regulation and market intervention.

The first issue is that U.S. multinational banks, through their access to offshore markets, are now able to make a new response to, and even perhaps to frustrate, the policies of the Federal Reserve. Movements of U.S. bank funds to take advantage of interest rate differentials now can alter the supply and cost of funds available for domestic uses. For example, in 1969 tight money in the United States caused U.S. banks to borrow from their foreign branches, thereby transmitting monetary stringency to other financial markets. The removal of regulation Q ceilings on large certificates of deposit, in 1970 induced a repayment of most of these borrowings. An expansionary monetary policy could also be rendered less effective by reason of the outflow of bank funds for foreign lending at higher interest rates.

A second problem is that the increasing volume of liquid funds in the hands of multinational banks, which can shift from one currency to another, may bring pressures on domestic monetary policy to accommodate exchange rate needs. Balance-of-payments problems, which under the fixed exchange rate system had been accommodated

mostly by shifts in international reserves or holdings of dollar balances, are now, under the floating exchange rate system, accommodated by changes in foreign currency exchange rates. The activity of the Eurocurrency markets and, in particular, the offshore operations of U.S. banks are responsible for a high proportion of the financial transfers that generate these new pressures on policy. If the United States seeks for domestic purposes a pattern of interest rates lower than in other major financial centers, it may happen that the dollar will depreciate and other countries will consequently lose competitive advantage in trade. These countries may then put pressure on U.S. monetary authorities to adopt a somewhat stiffer monetary posture than warranted by domestic considerations alone. The study will investigate the extent to which those pressures exist and whether domestic monetary policy is being unduly influenced by exchange rate considerations.

A third issue is whether U.S. banks' participation in the markets for foreign currencies has a stabilizing or destabilizing effect. The banks take positions in currencies subject to daily trading limits which they place on their traders. There are questions whether the banks change their limits in ways which increase the volatility of rate movements and whether the regulatory agencies have adequate information to insure that the banks are not fostering disorderly conditions in the exchange markets through speculative activities.

A fourth question is whether the expansion of the Eurocurrency markets is a significant contributor to world inflation, and, if so, what changes in national and international policies might be needed. Economists differ on the potential for credit creation through the Eurocurrency markets. Quite apart from this question, the high velocity of circulation of funds in these markets carries the potential of aggravating any existing tendency to inflation. Even if it is found that the Eurocurrency markets contribute substantially to world inflation, it may prove difficult to devise satisfactory methods of international control.

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